



PRESS RELEASE

26 April 2019

Petropavlovsk PLC (the "Company" or, together with its subsidiaries, the "Group")

Notice of Publication of Annual Report

The Annual Report for the year ended 31 December 2018 (the "Annual Report 2018") is available to view and download from the Company's website at www.petropavlovsk.net. A copy of the Annual Report 2018 has also been submitted to the National Storage Mechanism and will shortly be available for inspection at www.morningstar.co.uk/uk/nsm

The information contained in the Appendix to this announcement, which is extracted from the Annual Report 2018, is included solely for the purposes of complying with the Disclosure Guidance and Transparency Rules (the "DTR") 6.3.5 and the requirements it imposes on how to make public annual financial reports. The Appendix should be read in conjunction with the Company's Annual Results for the year ended 31 December 2018 issued on 24 April 2019 (the "Annual Results Announcement"). Together, these constitute the material required by DTR 6.3.5 to be communicated to the media in unedited full text through a Regulatory Information Service. This material should be read in conjunction with, and is not a substitute for reading, the Annual Report 2018.

References to page numbers and notes to the financial statement made in the Appendix refer to page numbers and notes to the financial statements in the Annual Report 2018. The information contained in this announcement does not constitute the Company's statutory accounts as defined in section 434 of the Companies Act 2006 (the "Act") for 2018 or 2017 but is derived from those accounts. The auditors have reported on those accounts and their report was unqualified, and did not contain statements under section 498(2) of the Act (regarding adequacy of accounting records and returns) or under section 498(3) of the Act (regarding provision of necessary information and explanations). The statutory accounts for the year ended 31 December 2018 have been approved by the Board and will be delivered to the Registrar of Companies. A copy of the statutory accounts for the year ended 31 December 2017 was delivered to the Registrar of Companies.

Neither the content of the Company's website, nor the content of any other website accessible from hyperlinks on the Company's website is incorporated into, or forms part of, this announcement.

Nominations Committee

The Company also confirms that Mr Damien Hackett, Independent Non-Executive Director was appointed as a member of the Company's Nominations Committee on 24 April 2019. The Committee now comprises of Sir Roderic Lyne, Chairman, Mr Robert Jenkins, Mr Harry Kenyon-Slaney and Mr Damien Hackett, Independent Non-Executive Directors and Dr Pavel Maslovskiy, Chief Executive Officer.

APPENDIX

1. Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

2. Principal risks relating to the Group

A table summarising Principal Risks is provided below. The risks set out in the table should not be regarded as a complete or comprehensive list of all potential risks and uncertainties facing the Group which could have an adverse impact on its performance. Additional risks which are currently believed to be immaterial could turn out to be material and significantly affect the Group's business and financial results.

OPERATIONAL RISKS

PRODUCTION RELATED RISK – Failure to achieve the Group's production plan

Risk	Description and potential impact	Mitigation/comments/ 2018 Progress	Potential impact/ change since 2017
Risk to production from: i) Weather ii) Delivery of equipment iii) Stripping ratios	<p>The Group's assets are located in the Russian Far East, a remote area that can be subject to severe climatic conditions. Severe weather conditions, such as cold temperatures in winter and torrential rain, potentially causing flooding in the region could have an adverse impact on operations, including the delivery of supplies, equipment and fuel; and exploration and extraction levels may fall as a result of such climatic factors.</p> <p>The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. Delay in the delivery or the failure of mining equipment could significantly</p>	<p>Preventative maintenance procedures are undertaken on a regular and periodic basis to ensure that machines will function properly in extreme cold weather conditions; heating plants at operational bases are regularly maintained and operational equipment is fitted with cold weather protection to assist in ensuring that equipment does not fail as a result of adverse weather conditions.</p> <p>Pumping systems are in place and tested periodically to ensure that they are functioning.</p> <p>Management monitor natural conditions in order to pre-empt any disaster and in order that appropriate mitigating action can be taken expeditiously. The Group aims to maintain several months of essential supplies at each site.</p> <p>Equipment is ordered with adequate lead times in order to ensure timely delivery of equipment. The Group has a number of contingency plans in place to address any disruption to services</p> <p>In October 2018, mining in the first underground stopes of the main high-grade orebody at -5m MSL level caused unusually high water inflow into the +55m MSL sublevel</p>	<p>Potential impact – High</p> <p>Change since 2017 - No change</p>

delay production and impact the Group's profitability.

The Group is dependent on production from its operating mines (both open pits and underground) and from POX in order to generate revenue and cash flow.

and all work in the North East Bakhmut 3 area at Pioneer's underground mining operations had to be stopped until the flooding was under control. Ore mining at North East Bakhmut resumed in January 2019.

The successful commissioning of the POX Hub commenced in November 2018. POX is a proven technology facilitating large scale, long life projects and with a reasonable cost profile.

During 2018 the Group delivered production in line with its revised guidance.

EXPLORATION RELATED RISK

Risk	Description and potential impact	Mitigation/comments/ 2018 Progress	Potential impact/ change since 2017
<p>The Group's activities are reliant on the quantity and quality of the Mineral Resources and Ore Reserves available to it.</p>	<p>Exploration activities are speculative, time-consuming and can be unproductive. In addition, these activities often require substantial expenditure to establish Reserves through drilling and metallurgical and other testing, determine appropriate recovery processes to extract gold from the ore and construct or expand mining and processing facilities. Once deposits are discovered it can take several years to determine whether Reserves exist. During this time, the economic viability of production may change. As a result of these uncertainties, the exploration programmes in which the Group is engaged may not result in their replacement or expansion with new Reserves after their depletion from current production.</p>	<p>The Group uses modern geophysical and geochemical exploration and surveying techniques. The Group employs a highly qualified team of geologists with considerable regional expertise and experience. They are supported by a network of fully accredited laboratories experienced in performing a range of assay work to high standards.</p> <p>Group Mineral Resource and Ore Reserve estimates are prepared by a team of qualified specialists following guidelines of JORC Code 2012, which is one of the most recognised reporting codes. Mineral Resource and Ore Reserve estimates are subject to regular independent reviews and audits. The last full audit was completed in April 2017 by Wardell Armstrong International.</p> <p>In addition, as a part of compliance with The Subsoil Law Group legislation, the Group also prepares reserve estimates following Russian GKZ guidelines. These estimates are subject to GKZ audits. Where possible, the Group reconciles GKZ and JORC estimates which provides additional assurance about the Company's Reserve estimates.</p> <p>The Group employs a team of qualified mining engineers to undertake mine planning, complete open pit and underground mine design and production scheduling.</p> <p>The success of the POX Hub has unlocked the Group's access to the 12.33Moz refractory Resources which support the Group's long-term growth objectives in doubling the average life of mine and sustaining its production profile.</p> <p>The Group continues to explore the potential for further mine life extension and production expansion. Exploration work has identified several prospective satellite refractory targets for further work at Malomir and Pioneer. A successful exploration campaign in 2018 yielded a 2% increase (before depletion and disposals) in JORC Mineral Resources across the Group's assets. This maintained the total Mineral Resource at 20.52Moz despite depletion of 0.49Moz due to mining and the disposal or surrender of several</p>	<p>Potential impact - High Change – Reduced</p>

licences containing 0.3Moz JORC resources during the year. The increase is mainly attributable to additions at open pit and underground targets at Pioneer, Malomir and Albyn, including a 26% increase in resources potentially suitable for underground mining, from c.0.94Moz to c.1.19Moz. Potential resources for underground mining have been identified at Pokrovskiy and Albyn.

Successful near mine exploration identified a number of promising targets that warrant further exploration, which may result in an increase in Mineral Resources and possibly new Ore Reserves.

PROCESSING

Risk	Description and potential impact	Mitigation/comments/ 2018 Progress	Potential impact/change since 2017 NEW RISK
A mechanical or metallurgical failure of the POX Hub, including failure to reach expected recovery rates or high levels of preg-robbing could result in lower production and/or higher costs.	<p>POX is a new and complex metallurgical facility which brings added challenges.</p> <p>If there is a failure in the POX process this could lead to lower production and/or higher costs which may have a detrimental impact on the Group's operating performance and financial condition.</p> <p>The monitoring equipment used at the POX plant uses radioactive isotopes to monitor the processing. A failure to use the equipment correctly could result in contamination.</p>	<p>The first two autoclaves which are the principal components of the POX Hub were successfully commissioned in December 2018, within the revised timeframe and have now been operational at design processing and gold recovery.</p> <p>The Group's expertise in pressure oxidation is represented by RDC Hydrometallurgy, a scientific research centre based in St Petersburg with a POX pilot plant located in Blagoveshchensk.</p> <p>In early 2018, a decision was made for RDC Hydrometallurgy to develop an advanced engineering course 'Autoclave Oxidative Leaching of Gold-bearing Sulphide Flotation Concentrates' for the Group's engineering and technical personnel and to install the only pilot autoclave installation in Russia. This simulation of the operator's workplace allowed trainees to learn to monitor and regulate all POX parameters.</p> <p>For six months, the engineers and technicians from Pokrovskiy, studied the theoretical section of the course at the training centre of Pokrovskiy Mining College. They then practised on the simulator to be fully prepared for the real-life commissioning.</p> <p>Safety requirements for the use of nuclear isotopes are exceeded only by the space industry. Therefore, for successful commissioning, it was necessary to fulfil a number of stringent requirements and conditions. The Group had to obtain a</p>	

license to operate radiation sources in the POX Hub and appropriate training was organised for employees.

FINANCIAL RISKS

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2017
Liquidity Risk	<p>The Group may need ongoing access to liquidity and funding in order to:</p> <p>(i) Refinance or repay its existing debt as required;</p> <p>(ii) Support its existing operations and extend their life and capacity; and</p> <p>(iii) Invest to develop its refractory ore concentrate production and underground mining projects and exploration.</p> <p>There is a risk that the Group may be unable to obtain necessary funding when required or that such funding will only be available on unfavourable terms.</p> <p>The Group may therefore be unable to meet its business development objectives or financial commitments.</p>	<p>In the event that the Group requires additional finance for shorter term liquidity purposes, including for capital expenditure purposes, the Group may have access to forward gold sales funding. This may be advantageous, depending upon the Group's access otherwise to debt or equity finance and the terms on which these may be available.</p> <p>In December 2018, Petropavlovsk's liquidity position was significantly strengthened after entering into a number of gold sales contracts with Gazprombank, for sales of c.175Koz in 2019-2020. These arrangements allow the Company to receive advance payments for 70% of gold with shipment to Gazprombank over a period commencing six months following receipt of an advance by the Company and ending no later than December 2020. These sale contracts have provided the Group with flexibility during the POX plant ramp up period.</p>	<p>Potential impact - High Change – Reduced</p>

Risk	Description and potential impact	Mitigation/comments/ 2018 Progress	Potential impact/ change since 2017
The Group's result of operations may be affected by changes in the gold price	<p>The Group's financial performance is highly dependent on the price of gold. A sustained downward movement in the market price for gold would negatively affect the Group's profitability and cash flow and consequently its ability to develop its business. The market price of gold is volatile and is affected by numerous factors which are beyond the Group's control.</p>	<p>The Chief Financial Officer constantly monitors the gold price and influencing factors on a daily basis and consults with the Board as appropriate.</p> <p>The Group has a hedging policy and hedges a portion of production as the Chief Financial Officer and Board deem necessary.</p> <p>In order to increase certainty in respect of a significant proportion of its cash flows, the Group entered into a number of gold forward contracts during 2018.</p> <p>Forward contracts to sell an aggregate of 200,000oz of gold at an average price of US\$1,252oz were outstanding as at 31 December 2018.</p> <p>A higher gold price environment may allow the Group to consider other hedging arrangement options in 2019.</p>	<p>Potential impact - High Change – no change</p>

Exchange rate fluctuations	<p>The Company reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenues are generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. An appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the group's costs relative to its revenues whereas the depreciation of the Russian Rouble against the US Dollar tends to result in lower Group costs relative to its revenues.</p>	<p>The average year-on-year depreciation of the Russian Rouble against the US Dollar was approximately 7%, with the average exchange rate for 2018 being RUB62.68:US\$1 compared to RUB58.32 : US\$1 for 2017.</p>	<p>Potential impact - High Change – no change</p>
	<p>In addition:</p> <ul style="list-style-type: none"> – A portion of the Group corporate overhead is denominated in Sterling. Therefore, adverse exchange rate movements may materially affect the Group's financial condition and results of operations. – If inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group's business, results of operations and financial condition may be adversely affected. 	<p>The Group's policy is to keep under review possible options for exchange rate hedging, although it currently has not entered into any such transactions</p>	

FINANCIAL RISKS

FUNDING AND LIQUIDITY RELATED RISKS

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2017
<p>Risk that:</p> <ul style="list-style-type: none"> – Funding may be demanded from Petropavlovsk under a guarantee provided in relation to a project finance facility provided to K&S a wholly owned subsidiary of IRC. – K&S will not be able to service the interest and meet the repayments due on its loan due to insufficient funds arising from a decrease in the iron ore price or operational issues at the K&S site – Risk that further issues delaying 	<p>As at 31 December 2018, Petropavlovsk had provided a guarantee against a US\$340 million project loan facility provided to K&S by ICBC to fund the construction of IRC's iron ore mining operation at K&S, of which c.US\$169m was outstanding as at 31 December 2018 (2017: cUS\$234m).</p> <p>In the event that K&S defaulted on its loan, Petropavlovsk may have been liable to repayment of the outstanding loan under the terms of the guarantee and other Group indebtedness may have become repayable under cross-default provisions.</p> <p>Due to actions taken by IRC and the Company during 2018 (see Mitigation/Comments) this risk has substantially reduced.</p> <p>However due to the guarantees provided by the Company to Gazprombank, the Group's going concern status remains sensitive to IRC's ability to comply with</p>	<p>– In June and December 2018, the Group provided IRC with bridge loans totalling c.US\$57m. These funds were used by IRC to pay two schedule payments to ICBC.</p> <p>– On 19 December 2018, K&S signed two new broadly identical facility agreements with Gazprombank (the 'Facility Agreements') whereby Gazprombank would provide K&S with a US\$240m facility for the purposes of repaying in full the outstanding project finance facility K&S had with ICBC and repaying the two bridge loans provided by Petropavlovsk to IRC (the 'Gazprombank Facility').</p> <p>– Pursuant to the Facility Agreements, Petropavlovsk was to guarantee the obligations of K&S up to an initial amount of US\$160m through a series of five guarantees over the life of the Gazprombank Facility. These guarantees were entered into by the Company and Gazprombank on 15</p>	<p>Potential impact - High Change – Reduced</p>

the ramping up of the K&S facility and/or a decrease in the iron price could result in a decrease in the value of the Group's shareholding in IRC.

covenants within the new facilities and generate sufficient cash flows from its K&S mine.

February 2019, with the effectiveness of each of the guarantees being conditional upon shareholder approval being obtained at a General Meeting. Such Shareholder approval was obtained on 12 March 2019.

–The Gazprombank Facility has been drawn down and has enabled IRC to:

–Repay in full the sum of approximately US\$169m outstanding under the ICBC Facility; and

–Repay Petropavlovsk the Russian Rouble equivalent of approximately c.US\$57m, in addition to any accrued interest and fees, as full repayment of the two bridge loans.

–The Gazprombank Facility will also enable IRC to fully pay guarantee fees of c.US\$6 million, owing to Petropavlovsk in relation to the guarantee provided for the ICBC facility (c.US\$4.5 million of which has been paid to date).

–The risk of K&S defaulting on its loan, and hence the risk that Petropavlovsk may be liable to repay the outstanding loan, has been reduced by K&S entering into the Gazprombank Facility and repaying the ICBC Facility because:

–The Gazprombank Facility provides for a significantly more relaxed amortisation schedule compared to that under the ICBC Facility; and

–Better aligns with the proposed ramp up of K&S and the revenues that are anticipated to be generated by it.

–The guarantee provided by the Company has decreased to US\$160m as at the date of this Annual Report. However in certain circumstances the Company could have a maximum liability of US\$240m under the guarantees.

Full details of the guarantees and the associated risks are contained in the Company's Circular to Shareholders dated 15 February 2018, a copy of which can be found on the Company's website at

<http://www.petropavlovsk.net/wp-content/uploads/2019/02/c114994CCL-pfp.pdf>

HEALTH, SAFETY AND ENVIRONMENTAL RISK

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2017
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<p>The Group operates potentially hazardous sites such as open-pits, underground mines, the POX Hub plant, exploration sites processing facilities and explosive storage facilities. The operation of these sites exposes its personnel to a variety of health and safety risks</p>	<p>The Group's employees are one of its most valuable assets. The Group recognises that it has an obligation to protect the health of its employees and that they have the right to operate in a safe working environment. Certain of the Group's operations are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to the occurrence of work-related accidents and harm to the Group's employees. These could also result in production delays and financial loss.</p>	<p>Board level oversight of health and safety issues occurs through the work of the Safety, Sustainability and Workforce Committee (SS&W Committee) which was constituted on 12 November 2018. The Committee is chaired by Mr Harry Kenyon-Slaney, Independent Non-Executive Director, who is assisted by his colleagues on the Committee namely, Dr Pavel Maslovskiy, Chief Executive Officer, Mr Damien Hackett, Independent Non-Executive Director, Mr Bektas Mukazhanov, Non-Executive Director and Dr Alya Samokhvalova, Deputy CEO. Mr Kenyon-Slaney's introduction to the Sustainability Report is provided on page 72 of this Annual Report. Members of the SS&W Committee visited the Group's operating mines in April 2019 during which they met with members of the workforce.</p>	<p>Potential impact – Medium/High Change – no change</p>
		<p>Health and Safety management systems are in place across the Group to ensure that the operations are managed in accordance with the relevant health and safety regulations and requirements and where possible with international best practice. The Group continually reviews and updates its health and safety procedures in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites, improved first aid response and the provision of further occupational, health and safety training.</p>	
		<p>The SS&W Committee has sought assurance from management that appropriate health and safety procedures have been enacted throughout the Group's POX Hub, not only to comply with Russian health and safety legislation but to adhere to international best practice, in recognition of the inherent risks within this new technology. The Group has provided extensive safety training to its employees on the operation of the POX process and in relation to its underground mining operations.</p>	
		<p>The Lost-Time Injury Frequency Rate (LTIFR) for 2018 of 2.52 accidents per 1 million man-hours worked compared with a LTIFR of 3.11 in 2017. Regrettably this included one fatality, a</p>	

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2017
Major pollution arising from operations include: air and water pollution, land contamination and deforestation.	<p>If the Group was involved in a major environmental event, potential impacts could include fines and penalties, statutory liability for environmental remediation and other financial consequences that might be significant.</p> <p>Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community.</p>	<p>road traffic accident involving an employee at Albyn who was being transported to his place of work from his accommodation at the time of the incident.</p> <p>Health & Safety targets are included in the annual bonus scheme for Executive Directors and the Executive Committee. The Remuneration Committee may also consider the Group's health and safety performance during the year when considering bonus plan payments.</p> <p>The Company operates a certified environmental management system at all of its sites which meet international standards.</p> <p>The Company has implemented a number of initiatives to monitor and limit the impact of its operations on the environment.</p> <p>Cyanide and other dangerous substances are kept in secure storages with access limited only to qualified personnel, with access closely monitored by security staff.</p>	Potential impact – Medium/High Change – no change

Loss of Personnel

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2017
The Company is dependent on Dr Pavel Maslovskiy, CEO and other long-serving members of the senior executive team.	The loss of key personnel to the Company may impact the morale of senior management and the workforce, the result of the Group's operations and a delay in the delivery of projects.	Succession Planning is on the Agenda of the Nominations Committee and the Board. The Remuneration Committee will ensure appropriate remuneration.	Potential impact – Medium/High Change – reduced

Country and Compliance Risks

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2017
The Group requires various licences and permits in order to operate	The Group's principal activity is gold mining which require it to hold licences which permit it to explore and mine in particular areas in Russia. These licences are regulated by Russian governmental agencies and if a material licence was challenged or terminated, this would have a material adverse impact on the Group. In addition, various government regulations require the Group to obtain	There are established processes in place to monitor the required and existing licences and permits on an on-going basis and processes are also in place to ensure compliance with the requirements of the licences and permits.	Potential impact – Medium/High Change – no change

permits to implement new projects or to renew existing permits.

Failure to comply with the requirements and terms of these licenses may result in the subsequent termination of licenses crucial to operations and cause reputational damage.

Alternatively, financial or legal sanctions could be imposed on the Group. Failure to secure new licences or renew existing ones could lead to the cessation of mining at the Group's operations or an inability to expand operations.

The Group is subject to risks associated with operating in Russia.

Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia.

Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals.

The Group's Pioneer and Malomir licences have been included on the list of subsoil assets of federal significance, maintained by the Russian Government ("Strategic Assets"). The impact of this classification is that changes to the direct or indirect ownership of these licences may require obtaining clearance in accordance with the Foreign Strategic Investment law of the Russian Federation.

To mitigate the Russian economic and banking risk the Group strives to use the banking services of several financial institutions and not keep disproportionately large sums on deposit with a single bank.

The Group seeks to mitigate the political and legal risk by constant monitoring of the proposed and newly adopted legislation and adapt to the changing regulatory environment in the countries in which it operates and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation within the Group of new legislation.

The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government.

The Company's Articles of Association include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no Ordinary Shares in the Company are acquired or held or transferred to any person in breach of Russian legislation, including any person having acquired (or who would as a result of any transfer acquire) Ordinary Shares or an interest in Ordinary Shares which, together with any other shares in which that person or members of their group is deemed to have an interest for the purposes of the Strategic Asset Laws, carry voting rights, exceeding 50 per cent. (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued Ordinary Shares without such

Potential impact –
Medium/High
Change – no change

acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Law.

This risk cannot be influenced by the management of the Company. However, the Group continues to monitor changes in the political environment including the impact of any potential sanctions, and reviews changes to the relevant legislation, policies and practices.

25. Related parties

Related parties the Group entered into transactions with during the reporting period

PJSC Asian-Pacific Bank ('Asian-Pacific Bank'), LLC Insurance Company Helios Reserve ('Helios') and Peter Hambro Limited were considered to be related parties as members of key management had an interest in and collectively exercise significant influence over these entities until 22 June 2017 when the Group lost significant influence over these companies.

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the governing board of the Petropavlovsk Foundation and their presence in its board of guardians.

IRC Limited and its subsidiaries (Note 32) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties which the Group entered into during the years ended 31 December 2018 and 2017 are set out below.

Trading Transactions

Related party transactions the Group entered into that relate to the day-to-day operation of the business are set out below.

	Sales to related parties		Purchases from related parties	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Entities in which key management have interest and exercise a significant influence or control	-	3	764	1,336
IRC Limited and its subsidiaries	164	85	681	2,062
	164	88	1,445	3,398

During the year ended 31 December 2018, the Group made US\$0.4 million charitable donations to the Petropavlovsk Foundation (2017: US\$0.2 million).

The outstanding balances with related parties at 31 December 2018 and 2017 are set out below.

	Amounts owed by related parties		Amounts owed to related parties	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Entities in which key management have interest and exercise a significant influence or control	1,556	236	-	-
IRC Limited and its subsidiaries	2,078	2,099	976	527
	3,634	2,335	976	527

In March 2018, the Group entered into a transaction with the member of key management personnel to purchase the office building and land, currently subject to an operating lease arrangement. The aggregate consideration payable is US\$3.5 million, of which US\$1.5 million of advance payments were paid by the Group as at 31 December 2018.

Financing transactions

The Group has charged a fee for the provision of the guarantee to IRC under ICBC Facility, equal to 1.75% on the ICBC outstanding loan principal (note 14), which amounted to US\$4.0 million during the year ended 31 December 2018 (2017: US\$4.1 million). The guarantee fee contractual balance outstanding amounted to US\$10.3 million (2017: US\$6.4 million) which corresponding fair value was US\$6.8 million (2017: US\$10.5 million).

In June 2018, the Group provided a Rouble denominated unsecured loan to IRC in the amount of RUB1,878 million (an equivalent of US\$29.75 million). The loan carried interest of 12% per annum and was repaid on 21 March 2019. The loan was recognised net of lifetime ECL of US\$0.5 million at inception. The Group recognised further US\$0.8 million impairment based on ECL model.

In December 2018, the Group provided a dollar denominated unsecured loan to IRC in the amount of US\$27.0 million. The loan carried interest of 16% per annum and was repaid on 21 March 2019. The loan was recognised net of lifetime ECL of US\$1.9 million at inception.

In March 2018, the Group entered into a loan agreement with Dr Pavel Maslovskiy. At 31 December 2018, the loan principal outstanding amounted to an equivalent of US\$0.2 million. Interest charged during the year ended 31 December 2018 comprised an equivalent of US\$0.01 million.

Key management compensation

Key management personnel, comprising a group of 16 individuals during the period (2017: 13), including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

	2018 US\$'000	2017 US\$'000
Wages and salaries	7,761	6,285
Pension costs	136	176
Share-based compensation	404	136
	8,301	6,597

30. Subsequent events

Refinancing of the ICBC Facility

Following the approval by the Company shareholders at a General Meeting held on 12 March 2019, to guarantee the obligations of K&S under the Gazprombank Facility, the refinancing of the ICBC Facility has been completed.

IRC entered into a new US\$240 million facility with Gazprombank. In March 2019, IRC drew down an aggregate of US\$228.9 million on the Gazprombank Facility that were used to repay the amounts outstanding under ICBC Facility of approximately US\$169 million in full, the two loans provided by the Group in the equivalent of approximately US\$57 million in full and to finance the K&S Project's working capital of approximately US\$3 million. The remaining proceeds from the Gazprombank Facility are to be used to repay part of the guarantee fee of US\$6 million owed by IRC to the Group in respect of the guarantee of the ICBC Facility with the remaining guarantee fee outstanding of approximately US\$5 million payable no later than 31 March 2020. In April 2019, IRC has further drawn down US\$4.5 million on the Gazprombank Facility.

A new guarantee was issued by the Group over part of the Gazprombank Facility, the guarantee mechanism is implemented through a series of five guarantees that fluctuate in value through the eight-year life of the loan, with the possibility of the initial US\$160 million principal amounts guaranteed reducing to US\$40 million within two to three years,

subject to certain conditions being met. For the final two years of the Gazprombank Facility, the guaranteed amounts will increase to US\$120 million to cover the final principal and interest repayments.

Enquiries

For more information, please visit www.petropavlovsk.net and www.ircgroup.com.hk or contact:

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